



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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MCMILLIN INFLATED DEVELOPMENT COSTS FOR NTC-LIBERTY STATION PROJECT UNDER SCRUTINY

San Diego, CA: An on-going audit of the NTC-Liberty Station project in Point Loma has revealed to date inflated development costs of \$9.6 million according to City Attorney Michael Aguirre, General Counsel to the City's Redevelopment Agency. As a result Aguirre is requesting that the Corky McMillin Companies reduce their claimed development costs by \$9.6 million.

The City Attorney claims the expenses are exaggerated because McMillin contracted with one of its own affiliates to provide expertise, thus allowing a 250% mark-up of labor costs.

In his March 2 letter to Walter Heiberg, Senior Vice President of McMillin Company, Aguirre states:

It is noted that McMillin-NTC was created by Corky McMillin Companies *solely* to act as the Master Developer for the NTC Redevelopment Project, and McMillin Companies certainly had the expertise in house to create McMillin-NTC with the capability to perform these services. Further, it is clear that an agreement between two of the Corky McMillin Companies where one charges the other a 250% multiple is not made at arms length.

"There appears to be a sweetheart arrangement between two McMillin companies where one charges the other an unjustified labor increase to the detriment of the taxpayers of San Diego," said City Attorney Aguirre. "While the outside auditor has not finished his work, it is dependent upon the cooperation of the McMillin Companies turning over the requested documents."

The letter further states:

The audit has disclosed that McMillin-NTC, rather than providing development supervision and technical services itself for the NTC Redevelopment Project, entered into an agreement with another McMillin Company, McMillin Management Services, to provide such services for the project. The costs associated with these services appear to be primarily labor costs.

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According to Aguirre the Participation Agreement between the Redevelopment Agency and McMillin has a funding formula by which the Agency will share in the NTC profits. But the inflated development costs will preclude the City's Redevelopment Agency from receiving any revenue if allowed to stand.

“Once these inflated development costs are eliminated there remains a gap of approximately \$2 million before the Redevelopment Agency can share in any profits,” said City Attorney Aguirre.

In his letter, Aguirre points out that the Corky McMillin Companies, through its affiliates, McMillin-NTC, McMillin Management Services, and Corky McMillin Construction Services, have gained significant revenue from the NTC Redevelopment Project, during which time the Agency has received nothing, and according to McMillin’s own computations as represented on its Business Plan is projected to receive nothing. But to date the audit has revealed information which would bring into doubt that projection. Specifically,

The audit disclosed that McMillin Management Services has charged McMillin-NTC \$14.2 million in Technical Service Fees and \$1.9 million in Development Supervision costs. These amounts are included by McMillin-NTC in its computation of Development Costs under the Participation Agreement. Significantly, the audit disclosed that the reason these costs charged by McMillin Management Services were so high is because McMillin Management Services has been multiplying its labor costs (including payroll burden of 26%) by 250%. Adjusting the \$14.2 million in Technical Service Fees and \$1.9 million in Development Supervision costs to remove the 250% factor would reduce the Development Costs by \$9.6 million.

“If McMillin-NTC is unwilling to do so, the Agency proposes to mediate the matter before Judge McCue (ret.),” said City Attorney Aguirre.

In 1999 the City Council selected McMillin to redevelop the former Naval Training Center in Point Loma.

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